

## Cheesecake Factory (CAKE)

**\$57.84** (As of 04/16/21)

Price Target (6-12 Months): **\$61.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 10/23/18)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:B

Value: D

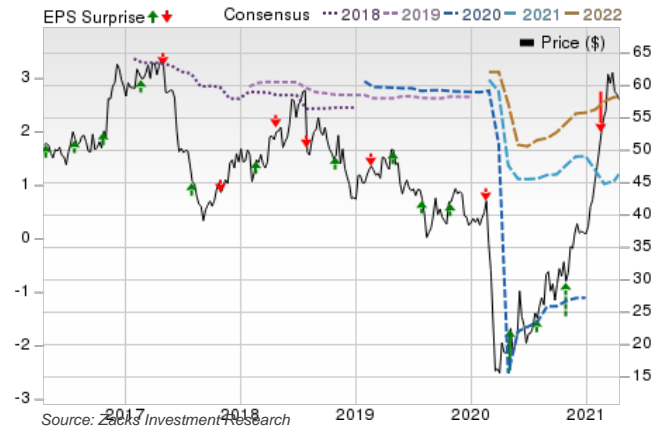
Growth: C

Momentum: A

### Summary

Shares of Cheesecake Factory have outperformed the industry so far this year. Notably, the company has been benefitting from its off-premise business model. Sales at off premise business model have exceeded the pre-pandemic levels and continued to sustain growth. It also continues to perform well in the delivery channel. This along with focus on initiatives like contactless menu, text paging, operational changes and other technology upgrades bode well. Earnings estimates for 2021 have moved up over the past 30 days. However, coronavirus related woes persist. Although the company has reopened majority of its restaurants, it is likely to witness dismal traffic due to the social-distancing protocols. The company anticipates that the pandemic will hurt operations for some time. This along with expenses related to labor and expansion remain concerns.

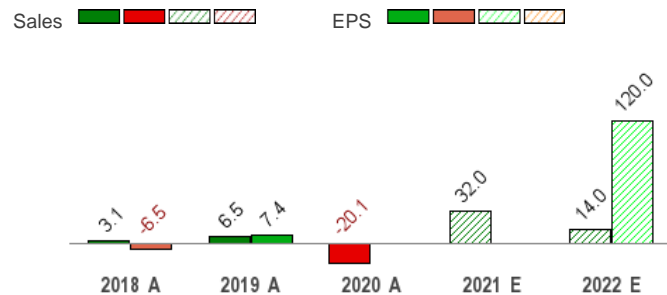
### Price, Consensus & Surprise



### Data Overview

52-Week High-Low	<b>\$63.20 - \$16.80</b>
20-Day Average Volume (Shares)	<b>569,420</b>
Market Cap	<b>\$2.7 B</b>
Year-To-Date Price Change	<b>56.1%</b>
Beta	<b>1.77</b>
Dividend / Dividend Yield	<b>\$0.00 / 0.0%</b>
Industry	<b>Retail - Restaurants</b>
Zacks Industry Rank	<b>Top 41% (105 out of 254)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>-255.6%</b>
Last Sales Surprise	<b>-8.2%</b>
EPS F1 Estimate 4-Week Change	<b>8.2%</b>
Expected Report Date	<b>04/28/2021</b>
Earnings ESP	<b>50.7%</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	720 E	730 E	742 E	772 E	2,985 E
2021	591 E	647 E	679 E	693 E	2,618 E
2020	615 A	296 A	518 A	555 A	1,983 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.49 E	\$0.64 E	\$0.65 E	\$0.69 E	\$2.64 E
2021	-\$0.20 E	\$0.29 E	\$0.48 E	\$0.55 E	\$1.20 E
2020	\$0.04 A	-\$0.87 A	-\$0.33 A	-\$0.32 A	-\$1.49 A

\*Quarterly figures may not add up to annual.

P/E TTM	<b>NA</b>
P/E F1	<b>48.2</b>
PEG F1	<b>4.4</b>
P/S TTM	<b>1.3</b>

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 04/16/2021. The report's text and the analyst-provided price target are as of 04/19/2021.

## Overview

As of Dec 29, 2020, Cheesecake Factory operated 294 restaurants throughout the United States and Canada under brands including The Cheesecake Factory and North Italia, and a collection within the Fox Restaurant Concepts subsidiary.

Internationally, the company operates 27 The Cheesecake Factory restaurants under licensing agreements. It also operates two bakery production facilities.

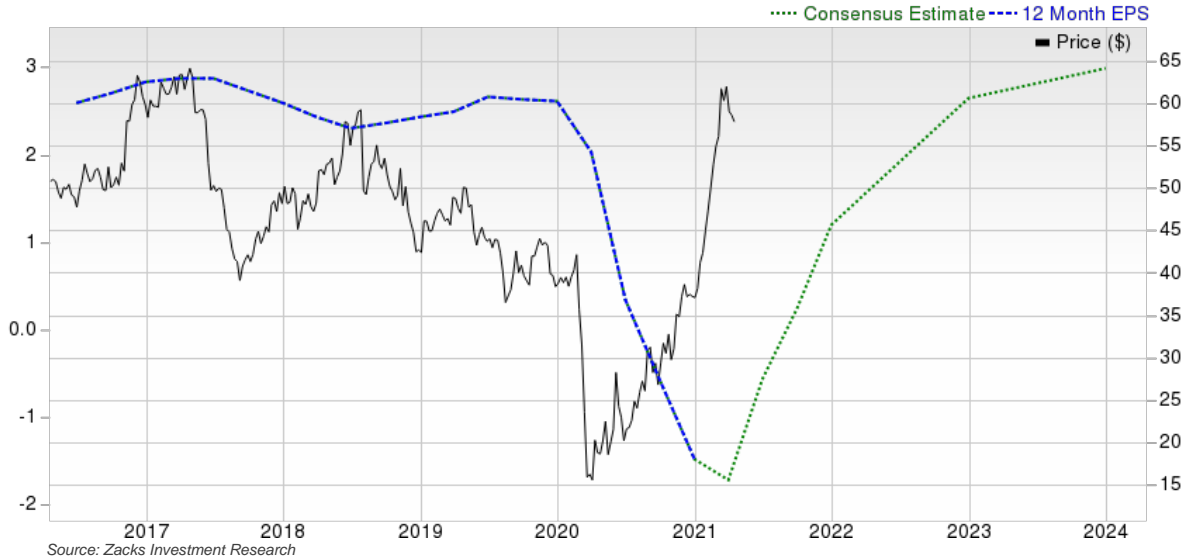
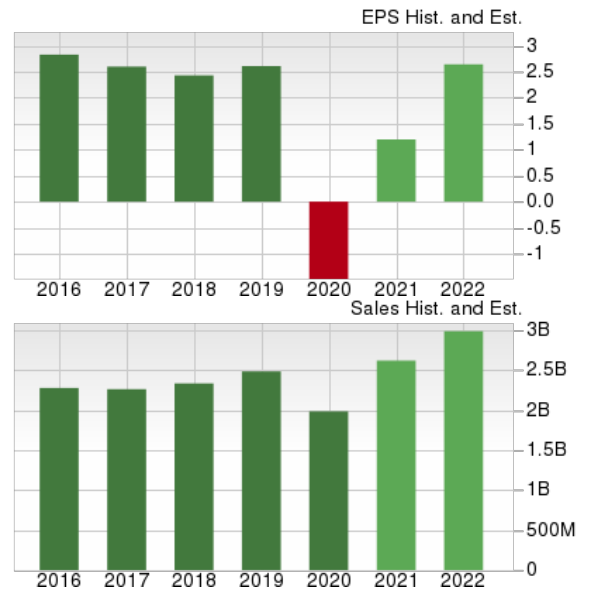
All the restaurants provide a full-service bar, where the restaurants' entire menu is served. The segments through which the company operates are The Cheesecake Factory (which accounted for 79.9% of total fiscal 2020 revenues), North Italia (5.2%), Other FRC brands (4.9%) and Other (10%).

The 'Other' segment includes Grand Lux cafe, outside bakery sales and international licensing.

Notably, during fiscal 2016, the company entered into a strategic relationship with Fox Restaurant Concepts LLC (FRC) with respect to two of its brands: North Italia and Flower Child. Per the terms of the agreements, Cheesecake Factory made initial minority equity investments in and will provide ongoing growth capital for, these concepts. On Oct 2, 2019, the company completed the acquisitions of North Italia and the remaining business of Fox Restaurant Concepts LLC (FRC), including Flower Child.

The company allows its menu to be consumed off the premise except for alcoholic beverages. In fact, in 2018, Cheesecake Factory's off-premise sales constituted 14% of total restaurant sales. The company also works with a third party to provide delivery services. Additionally, there is online ordering service for to-go sales at all domestic locations.

The Cheesecake Factory menu features approximately 250 items, including items presented on supplemental menus, such as SkinnyLicious menu, which offers menu with 590 calories or less. The company's core menu also includes appetizers, pizza, seafood, burgers, steaks, chicken, pastas and salads, etc.



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## Reasons To Buy:

- ▲ **Sales-Building Efforts:** Cheesecake Factory is committed to bolstering sales to stay afloat in the competitive environment. Notably, menu-innovation and advanced digital capabilities are the primary fortes of the company. Going forward, it intends to carry on with menu innovation by adding new Super Food items and the famous indulgences of The Cheesecake Factory. Super Foods program has increased consumer awareness of brands. Meanwhile, the company also launched its Timeless Classics special menu card nationally.

Cheesecake Factory's aggressive expansion initiatives and efforts to boost sales and margins are commendable.

Despite the capacity restrictions, the company's 24 Cheesecake Factory locations reported positive comparable sales during fourth-quarter 2020. Moreover, the company opened Cheesecake Factory in Clearwater, FL. The company is planning to open 12 to 15 restaurants across its concepts in 2021. On the international front, it anticipates opening three Cheesecake Factory locations under licensing agreements.

- ▲ **Increased focus on Fox Restaurant Concepts (FRC) To Drive Growth:** Nearly after one year of closing its acquisition, Fox Restaurant Concepts or FRC has not only reinforced its confidence and strength amid the ongoing pandemic, but also paves the path for long-term growth. In a bid to offer concepts of the future, the FRC is planning to launch a pop-up virtual concept (inspired by the Dilbert menu) through the off-premise channel in the Phoenix market. It also launched a Flower Child pop-up in early 2021. These are likely to offer streamlined menus (focused on the off-premise channel) and limited indoor seating capacity. Further, testing of some digital initiatives are in the pipeline. Notably, the company remains optimistic with respect to the consumers response toward these initiatives.

- ▲ **Digitalization to Drive Growth:** Cheesecake Factory's technology-enabled initiatives are doing well with feedback on its mobile payment app, CakePay, being positive. The company signed an exclusive national delivery partnership with DoorDash. It expects to reap benefits from these collaborative marketing opportunities. The company is also witnessing incremental sales from its delivery service, which continues to roll out nationwide. It continues to improve its to-go business including online ordering capability. This is a major contributor to growth of the company's strong off-premise sales channels. Resultantly, its off-premise business reached 14% of total sales in 2018 compared with 12% in 2017. Further, off-premise business accounted for 17% of total sales in fourth-quarter 2019. The uptrend continued in first-quarter 2020, as off-premise sales accounted for nearly 22% Cheesecake Factory sales.

Even though the company has reopened the majority of dining rooms with limited capacity, off-premise operations continue to be a driving factor for overall sales. Despite the pandemic, off-premise sales contributed approximately 45% and 40% of the company's restaurant sales during fiscal third and fourth-quarter 2020, respectively. For first-quarter fiscal 2021 through February 16 off-premise sales were up 35%. It also continues to perform well in the delivery channel. In order to boost consumer convenience, the company has implemented operational changes and technology upgrades, which include contactless menu and payment technology, and text paging.

- ▲ **Enough Liquidity to Tide Over Coronavirus Crisis:** Cheesecake Factory possesses enough liquidity to survive the coronavirus pandemic for some time. As of Dec 29, the company's cash balance totaled \$154.1 million compared with \$244 million as of Sep 29, 2020. However, long-term debt during the quarter amounted to \$280 million, compared with \$376 million in the previous quarter. Resultantly, debt-to-capital ratio during the quarter came in at 0.5, thereby indicating manageable debt levels.

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## Reasons To Sell:

- ▼ **Coronavirus to Hurt Future Results:** The coronavirus outbreak is hurting the industry. The restaurant industry has been facing declining traffic for quite some time now. We believe the coronavirus outbreak will further hurt traffic and sales in the coming quarter. The company announced it is constantly reevaluating the reopening schedule of restaurants. However, it believes that on-premise dining will be impacted for some time due to the social distancing. Moreover, due to uncertainty revolving around the COVID-19 pandemic, the company has suspended its share repurchase activity and dividend payment program.

As of Feb 17, the company reopened indoor dining rooms with limited capacity across 80% of its restaurants (which includes 166 Cheesecake Factory locations). Notably, the restaurants are operating at 50% capacity. Approximately 17% of the company's restaurants (which includes 39 Cheesecake Factory locations) are operating with reopened patios and social-distancing protocols. While one Cheesecake Factory location is operating in an off-premise only model, three locations have been closed due to the pandemic.

The coronavirus pandemic, fluctuating consumer discretionary spending along with high costs remain potent headwinds

- ▼ **Rising Costs Might Hurt Profits:** High costs remain a concern. Pre-opening costs of outlets — given the company's unit expansion plans, expenses related to sales initiatives, higher labor expenses and additional cleaning costs — are likely to hurt profits.

For fiscal fourth-quarter 2020, cost of sales — as a percentage of revenues — increased 10 basis points (bps) year over year to 22.9%. Meanwhile, labor expenses — as a percentage of total revenues — was 39.3%, up 310 bps from the year-ago quarter. Other operating costs represented 30.2% of revenues compared with 26% in the prior-year quarter. General and administrative (G&A) expenses accounted for 7.3% of revenues, up 50 bps from the prior-year quarter's levels. In the fiscal fourth quarter, pre-opening expenses accounted for 0.5% of revenues, down 40 bps year over year.

- ▼ **Industry Susceptible to Consumer Discretionary Spending:** Cheesecake Factory operates in the retail restaurant space that is highly dependent on consumer discretionary spending. Consumers' propensity to spend largely depends on the overall macroeconomic scenario. Although higher disposable income and increased wages are favoring the industry right now, it can change with the slightest disruption in the economy. The company, therefore, is highly vulnerable to the inconsistent nature of consumer discretionary spending. If it does not make pragmatic use of advanced technologies to innovate across value chains, it has high chances of fading out like many other restaurant retailers.

- ▼ **Cutthroat Competition:** The restaurant space is highly competitive as numerous restaurant operators are ongoing advanced and prudent strategies to increase their sales. In fact, going by the current retail scenario, adapting to shifting demand has become a major precedence for retailers. Companies with continual digital innovation, focus on product customization, and launch and delivery of seamless consumer experience can only thrive in the competitive space. This puts a lot of pressure on Cheesecake Factory to continuously change its strategies in correspondence to the fickle consumer demand.
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## Last Earnings Report

### Cheesecake Factory Q4 Earnings Miss Estimates, Fall Y/Y

The Cheesecake Factory reported fourth-quarter fiscal 2020 results, with earnings and revenues missing the Zacks Consensus Estimate as well as declining on a year-over-year basis.

#### Earnings & Revenue Discussion

In the quarter under review, adjusted loss per share came in at 32 cents, wider than the Zacks Consensus Estimate of a loss of 9 cents. In the prior-year quarter, the company had reported adjusted earnings of 58 cents per share. The downside was primarily caused by rise in labor and other operating expenses.

During the fiscal fourth quarter, total revenues of \$554.6 million missed the Zacks Consensus Estimate of \$604 million by 8.2%. Also, the top line declined 20.1% on a year-over-year basis. The decline was primarily attributed to additional dining room closures and capacity restrictions stemming from a rise in COVID-19 cases. During the reported quarter, comps at Cheesecake Factory restaurants declined 19.5% year over year.

#### Costs in Detail

Cost of sales, as a percentage of revenues, increased 10 basis points (bps) year over year to 22.9% in the fiscal fourth quarter. Labor expenses, as a percentage of total revenues, was 39.3%, up 310 bps from the year-ago quarter's levels.

Other operating costs represented 30.2% of revenues compared with 26% in the prior-year quarter. General and administrative (G&A) expenses accounted for 7.3% of revenues, up 50 bps from the prior-year quarter's levels. In the fiscal fourth quarter, pre-opening expenses accounted for 0.5% of revenues, down 40 bps year over year.

#### Balance Sheet

As of Dec 29, 2020, Cheesecake Factory's cash and cash equivalents totaled \$154.1 million compared with \$58.4 million as of Dec 31, 2019.

During the fiscal fourth quarter, the company made payment-in-kind dividend worth \$5 million to its convertible preferred stockholders.

Long-term debt totaled \$280 million in the fiscal fourth quarter compared with \$290 million as on Dec 31, 2019.

#### Developmental Details

As of Feb 17, the company reopened indoor dining rooms with limited capacity across 80% of its restaurants (which includes 166 Cheesecake Factory locations). Notably, the restaurants are operating at 50% capacity.

Approximately 17% of the company's restaurants (which includes 39 Cheesecake Factory locations) are operating with reopened patios and social-distancing protocols. While one Cheesecake Factory location is operating in an off-premise only model, three locations have been closed owing to the pandemic.

During the fiscal fourth quarter, the company opened a restaurant in Clearwater, FL. It also opened a culinary dropout and Blanco at additional locations in Arizona. Internationally, the company opened a restaurant in Mexico under a licensing agreement.

#### Other Business Updates

Since the start of the fiscal first quarter to Feb 16, 2021, comps at Cheesecake Factory (across all operating models) declined approximately 18%. However, for restaurants with reopened indoor dining rooms, comps are down 9% year over year.

#### 2020 Highlights

Total revenues in 2020 came in at \$1,983.2 million compared with \$2,482.7 million in 2019.

General and administrative expenses in 2020 came in at \$157.6 million compared with \$160.2 million in 2019.

In 2020, adjusted loss per share came in at \$1.49 against earnings of \$2.61 in the previous year.

Quarter Ending	12/2020
Report Date	Feb 17, 2021
Sales Surprise	-8.18%
EPS Surprise	-255.56%
Quarterly EPS	-0.32
Annual EPS (TTM)	-1.48

## Valuation

Cheesecake Factory's shares are up by 56% in the year-to-date period and 205.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up by 10.7% and 1.6%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry was up by 46.3% and the sector was up by 36.1%.

The S&P 500 index is up by 12% in the year-to-date period and 51.2% in the past year.

The stock is currently trading at 35.5x forward 12-month earnings, which compares with 30.94x for the Zacks sub-industry, 32.53x for the Zacks sector and 23.29x for the S&P 500 index.

Over the past five years, the stock has traded as high as 213.24x with a 5-year median of 17.82x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$61 price target reflects 37.65x forward 12-month earnings.

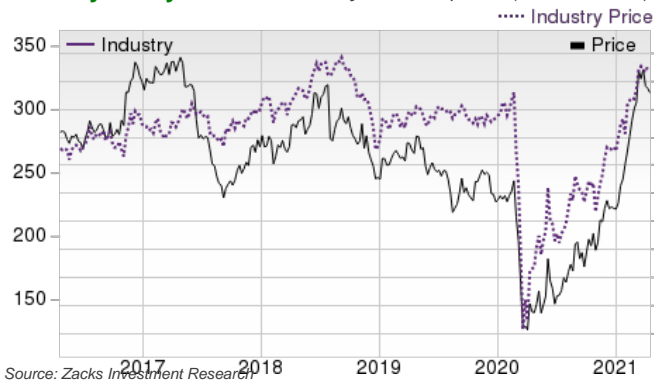
The table below shows summary valuation data for CAKE.

Valuation Multiples - CAKE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	35.5	30.94	32.53	23.29
	5-Year High	213.24	34.23	34.1	23.83
	5-Year Low	N/A	20.37	19.13	15.3
	5-Year Median	17.82	23.12	23.81	18.01
P/S F12M	Current	0.98	4.34	1.41	4.83
	5-Year High	1.35	4.34	1.41	4.83
	5-Year Low	0.24	2.81	0.84	3.21
	5-Year Median	0.9	3.38	1.02	3.71
P/CF	Current	873.72	36.4	15.03	25.68
	5-Year High	943.82	36.4	19.06	25.68
	5-Year Low	3.18	8.59	11.05	12.86
	5-Year Median	9.15	17.32	13.81	18.72

As of 04/16/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 41% (105 out of 254)



## Top Peers

Company (Ticker)	Rec	Rank
Darden Restaurants, Inc. (DRI)	Outperform	1
Arcos Dorados Holdings Inc. (ARCO)	Neutral	3
Cracker Barrel Old Country Store, Inc. (CBRL)	Neutral	3
Chipotle Mexican Grill, Inc. (CMG)	Neutral	3
DINE BRANDS GLOBAL, INC. (DIN)	Neutral	3
Brinker International, Inc. (EAT)	Neutral	3
Texas Roadhouse, Inc. (TXRH)	Neutral	3
The Wendys Company (WEN)	Neutral	3

The positions listed should not be deemed a recommendation to buy, hold or sell.

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	CAKE	X Industry	S&P 500	CMG	DRI	EAT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	1	3
VGM Score	B	-	-	C	D	B
Market Cap	2.65 B	891.61 M	30.15 B	43.26 B	19.07 B	3.13 B
# of Analysts	12	6	12	17	13	10
Dividend Yield	0.00%	0.00%	1.28%	0.00%	2.41%	0.00%
Value Score	D	-	-	D	F	B
Cash/Price	0.06	0.07	0.06	0.02	0.05	0.02
EV/EBITDA	-10.84	15.18	17.10	79.48	75.36	18.51
PEG F1	4.41	3.34	2.40	3.54	3.69	2.57
P/B	9.13	5.00	4.08	21.26	7.40	NA
P/CF	159.98	24.95	17.07	79.02	25.52	13.52
P/E F1	48.46	39.41	22.39	65.48	36.91	25.71
P/S TTM	1.34	1.83	3.46	7.23	3.08	1.07
Earnings Yield	2.07%	2.31%	4.41%	1.53%	2.71%	3.89%
Debt/Equity	0.97	0.41	0.66	0.00	0.36	-2.55
Cash Flow (\$/share)	0.36	0.67	6.78	19.42	5.73	5.09
Growth Score	C	-	-	B	C	D
Historical EPS Growth (3-5 Years)	-15.71%	-2.91%	9.34%	29.72%	-9.29%	-10.34%
Projected EPS Growth (F1/F0)	180.37%	69.72%	15.70%	118.47%	26.66%	56.55%
Current Cash Flow Growth	-91.97%	-41.66%	0.61%	-10.96%	-30.15%	-23.98%
Historical Cash Flow Growth (3-5 Years)	-39.64%	-2.17%	7.37%	-2.15%	2.15%	-7.82%
Current Ratio	0.58	1.01	1.39	1.73	0.79	0.51
Debt/Capital	63.31%	46.50%	41.26%	0.00%	26.52%	NA
Net Margin	-6.11%	-3.54%	10.59%	5.94%	-3.54%	0.15%
Return on Equity	-22.93%	-13.33%	14.98%	16.94%	5.94%	-8.50%
Sales/Assets	0.71	0.76	0.51	1.08	0.62	1.21
Projected Sales Growth (F1/F0)	32.01%	12.25%	7.43%	21.71%	-9.82%	7.32%
Momentum Score	A	-	-	A	B	A
Daily Price Change	0.26%	0.26%	0.49%	-0.48%	2.21%	2.38%
1-Week Price Change	-0.80%	0.93%	1.54%	6.46%	-0.82%	-4.91%
4-Week Price Change	-3.29%	-0.88%	5.18%	7.39%	4.54%	-7.44%
12-Week Price Change	34.57%	17.11%	11.23%	2.09%	17.10%	11.32%
52-Week Price Change	226.78%	93.62%	59.10%	95.11%	152.38%	374.62%
20-Day Average Volume (Shares)	569,420	222,346	1,960,937	247,219	2,052,650	856,753
EPS F1 Estimate 1-Week Change	7.55%	0.00%	0.00%	1.40%	0.00%	2.88%
EPS F1 Estimate 4-Week Change	8.22%	0.59%	0.04%	2.31%	20.36%	4.86%
EPS F1 Estimate 12-Week Change	-19.68%	-1.13%	1.93%	10.91%	20.09%	5.47%
EPS Q1 Estimate Monthly Change	6.37%	0.00%	0.00%	3.39%	34.00%	8.14%

Source: Zacks Investment Research



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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	<b>D</b>
Growth Score	<b>C</b>
Momentum Score	<b>A</b>
VGM Score	<b>B</b>

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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## Disclosures

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**Returns quoted represent past performance which is no guarantee of future results.** Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

## Glossary of Terms and Definitions

**52-Week High-Low:** The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

**20-Day Average Volume (Shares):** The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

**Daily Price Change:** This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

**1-Week Price Change:** This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

**4-Week Price Change:** This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

**12-Week Price Change:** This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

**52-Week Price Change:** This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

**Market Cap:** The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

**Year-To-Date Price Change:** Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

**# of Analysts:** Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

**Beta:** A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

**Dividend:** The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

**Dividend Yield:** The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

**S&P 500 Index:** The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

**Industry:** One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

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**Zacks Industry Rank:** The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

**Last EPS Surprise:** The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

**Last Sales Surprise:** The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

**Expected Report Date:** This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

**Earnings ESP:** The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

**Periods:**

**TTM:** Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

**F1:** Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

**F2:** Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

**F12M:** Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

**P/E Ratio:** The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

**PEG Ratio:** The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

**P/S Ratio:** The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

**Cash/Price Ratio:** The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

**EV/EBITDA Ratio:** The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

**EV/Sales Ratio:** The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

**EV/CF Ratio:** The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

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**EV/FCF Ratio:** The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

**P/EBITDA Ratio:** The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

**P/B Ratio:** The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

**P/TB Ratio:** The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

**P/CF Ratio:** The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

**P/FCF Ratio:** The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

**Earnings Yield:** The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ( $3/35 = 0.0857$ ) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

**Debt/Equity Ratio:** The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

**Cash Flow (\$/share):** Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

**Current Ratio:** The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

**Debt/Capital Ratio:** Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

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**Net Margin:** Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

**Return on Equity:** Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

**Sales/Assets Ratio:** The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

**Historical EPS Growth (3-5 Years):** This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

**Projected EPS Growth (F1/F0):** This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

**Current Cash Flow Growth:** It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

**Historical Cash Flow Growth (3-5 Years):** This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

**Projected Sales Growth (F1/F0):** This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

**EPS F1 Estimate 1-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

**EPS F1 Estimate 4-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

**EPS F1 Estimate 12-Week Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

**EPS Q1 Estimate Monthly Change:** The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.